

HIGHLAND PARK HOUSING COMMISSION
HIGHLAND PARK, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Highland Park Housing Commission	County Wayne
Fiscal Year End September 30, 2006	Opinion Date June 21, 2007	Date Audit Report Submitted to State June 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Reports on Compliance and Internal Control	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 731 S. Garfield Avenue		City Traverse City	State MI
		Zip 49686	
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA	License Number 11050

HIGHLAND PARK HOUSING COMMISSION
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Independent Auditor's Report

Board of Commissioners
Highland Park Housing Commission
Highland Park, Michigan

I have audited the accompanying basic financial statements of the business-type activities and the aggregate remaining fund information of the Highland Park Housing Commission, Michigan, a component unit of the City of Highland Park, as of and for the year ended September 30, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The Housing Commission requested a proposal from me for the audit on May 6, 2007 and I began my fieldwork on June 11, 2007. The final trial balance was available for me on June 24, 2007. HUD requires the audited financial statements to be electronically submitted within nine months of the fiscal year end, otherwise the Housing Commission will be determined as troubled. There are no extensions allowed.

Highland Park Housing Commission
Independent Auditor's Report
Page Two

In my opinion, except for the effects of receiving the trial balance so close to the HUD required due date, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate remaining fund information of the Highland Park Housing Commission, Michigan, as of September 30, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 21, 2007, on my consideration of Highland Park Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis comparison information on pages 4 through 12, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Highland Park Housing Commission
Independent Auditor's Report
Page Three

My audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise Highland Park Housing Commission, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the remaining accompanying supplemental information including the Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects, in all material respects, in relation to the basic financial statements taken as a whole.

Sandy E. Tauldt, CPA

June 21, 2007

HIGHLAND PARK HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
September 30, 2006
(Unaudited)

As management of the Highland Park Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Highland Park Housing Commission's financial activities for the fiscal year ended September 30, 2006. This discussion and analysis letter of the Highland Park Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transactions has actually taken place.

Financial Highlights

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of September 30, 2006 were \$3,618,929. The net assets decreased by \$196,180, a decrease of 5.1% from the prior year.

Revenues and contributions for the Commission were \$1,292,046 for the year ended September 30, 2006. This was a decrease of \$36,561 or 2.7% from the prior year.

Expenses for the Commission were \$1,551,104 for the year ended September 30, 2006. This was a decrease of \$70,645 or 4.3% from the prior year.

HUD operating grant subsidies were \$629,244 for the year ended September 30, 2006. This was a decrease of \$31,263 or 4.7% from the prior year. Capital contributions for the Commission were \$202,251 (of which \$180,101 were used for operating purposes) for the year ended September 30, 2006. This was an increase of \$17,421 or 9.4% over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

Required Financial Statements

The *Statement of Net Assets* includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

FUND STATEMENTS

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Highland Park Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income. The Housing Commission has 198 low rent units.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the following table, assets exceeded liabilities by \$3,618,929 at the close of the year ended September 30, 2006 down from \$3,877,987 in 2005. The decrease in net assets of \$259,058 was due to the change in net assets for the year.

The unrestricted net assets were \$130,802 as of September 30, 2006. This amount may be used to meet the Commission's ongoing obligations. The Commission had no net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

FINANCIAL ANALYSIS (CONTINUED)

CONDENSED STATEMENTS OF NET ASSETS SEPTEMBER 30,

	2006	2005	Net Change
Current and other assets	\$ 344,497	\$ 339,830	\$ 4,667
Capital assets	<u>3,488,127</u>	<u>3,746,394</u>	<u>(258,267)</u>
Total assets	<u>\$3,832,624</u>	<u>\$4,086,224</u>	<u>\$ (253,600)</u>
Current liabilities	\$ 159,555	\$ 93,911	\$ 65,644
Noncurrent liabilities	<u>54,140</u>	<u>114,326</u>	<u>(60,186)</u>
Total liabilities	<u>213,695</u>	<u>208,237</u>	<u>5,458</u>
Net assets:			
Invested in capital assets	3,488,127	3,746,394	(258,267)
Unrestricted net assets	<u>130,802</u>	<u>131,593</u>	<u>(791)</u>
Total net assets	<u>3,618,929</u>	<u>3,877,987</u>	<u>(259,058)</u>
Total liabilities and net assets	<u>\$3,832,624</u>	<u>\$4,086,224</u>	<u>\$ (253,600)</u>

Current and other assets increased slightly, in part, due to prepaid insurance being set up as an asset as of September 30, 2006.

Current liabilities increased, in part, due to the current portion of compensated absences increasing by \$5,419 from the prior year and a bank overdraft of \$75,177 this fiscal year. Accounts payable decreased by \$12,776 from the prior year.

Noncurrent liabilities decreased by \$60,186, because of a payment of \$76,445 to the City of Highland Park for prior years PILOT and an increase in the noncurrent portion of accrued compensated absences of \$16,259 from the prior year.

The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending. The decrease of \$258,267 in capital assets, is due to the depreciation expense of \$285,418, netted against capital outlays of \$26,035 and an adjustment of \$1,116.

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in the following table total revenues and contributions decreased by \$36,561, in part, due to the decrease tenant rents of \$36,285, and a decrease in federal funding of \$13,842 from the prior year. Also, the Commission received a grant of \$12,600 for weeding and seeding the Housing Commission grounds.

FINANCIAL ANALYSIS (CONTINUED)**CONDENSED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
DECEMBER 31,**

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Revenues and Contributions			
Dwelling rent	\$ 421,258	\$ 457,543	\$ (36,285)
Nondwelling rent		50	(50)
Interest income	7,272	3,927	3,345
Other income	19,421	21,750	(2,329)
Other government grants	12,600		12,600
HUD operating grants	629,244	660,507	(31,263)
Capital contributions	<u>202,251</u>	<u>184,830</u>	<u>17,421</u>
Total Revenues and Contributions	<u>1,292,046</u>	<u>1,328,607</u>	<u>(36,561)</u>
Expenses			
Personal services	550,851	604,842	(53,991)
Utilities	306,122	258,775	47,347
Operations and maintenance	198,331	260,763	(62,432)
Insurance	113,722	107,268	6,454
Payment in lieu of taxes	6,936	9,527	(2,591)
Other supplies and expenses	89,724	88,770	954
Depreciation	<u>285,418</u>	<u>291,804</u>	<u>(6,386)</u>
Total Expenses	<u>1,551,104</u>	<u>1,621,749</u>	<u>(70,645)</u>
Change in Net Assets	<u>\$ (259,058)</u>	<u>\$ (293,142)</u>	<u>\$ 34,084</u>

Total expenses for the Commission decreased by \$70,645 due to decreases in a reduction in maintenance personnel, maintenance contract expenses were reduced by \$51,059, and \$22,888 less spent this fiscal year on fire renovations than the prior year. Water/sewage and natural gas rates increased this fiscal year.

The following represents changes in Federal Assistance received:

<u>Program Source</u>	<u>09/30/06</u>	<u>09/30/05</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Public Housing Operating Subsidy	\$629,244	\$660,507	\$ (31,263)	(4.7%)
Capital Fund Program	<u>202,251</u>	<u>184,830</u>	<u>17,421</u>	<u>9.4%</u>
Total	<u>\$831,495</u>	<u>\$845,337</u>	<u>\$ (13,842)</u>	<u>4.7%</u>

The above chart is segregated as to the Program source of funds, not the use of funds. Capital Fund Program grants are used for both operating costs and for capital improvements. HUD has implemented a new formula for calculating the operating subsidy, therefore, the reason for the \$31,263 decrease from the prior year.

FINANCIAL ANALYSIS (CONTINUED)

Budget Analysis:

A Low Rent Public Housing Operating Budget for the fiscal year ended September 30, 2006 was not prepared.

OPERATIONAL HIGHLIGHTS

There has been a further slight decline in the HUD Capital Fund grant amount this year as in recent years. HUD has also changed our funding cycle for the Operating Fund grant to a calendar year basis instead of our fiscal year of October to December, as in the past.

HUD is forcing our agency to adopt "Asset Management" practices by imposing an Operating Fund decline in funding level if we do not adopt these new management and financial practices. These changes for asset management should serve to make our agency more accountable, efficient, and more in line with the private sector. If we do not adopt these practices, we will experience funding cuts over the next four years. We have much work to do to implement asset management. Our agency has been slow to get the training for and to implement asset management.

Our agency may lose the Capital Fund grant for 2007 due to being slow in preparing the necessary paperwork and filing it with HUD. This would be a very unfortunate development when we have so many challenges facing us.

We have substantial repairs that we need to make to our rental units. We do not yet have a cost estimate of this large repair need. We are expecting a thorough report from HUD showing the results of their inspection of all of our physical units. HUD conducted their physical unit inspections in March and April of this year. We will be developing a broad reaching repair plan to bring our units up to the required standards.

HUD recently designated our agency as "Troubled" and will be leading us through a thorough process of change to bring the agency into compliance with the many rules and regulations under which we operate. In the process of updating our operations and coming into compliance we will be revising all of our policies. We look forward to bringing our agency into compliance and improving our overall operation and service to the community.

The many changes and challenges facing our housing agency are serious, but we can and will meet these challenges. Through these many changes we will practically recreate or reinvent ourselves.

Our agency is liquid at this time and fairly sound, but there is considerable and increasing financial pressure on us. We currently have less cash in the bank compared to recent years due primarily to high contract costs, very high insurance premiums, and rapidly increasing employee benefit costs. We have decreasing HUD funding

OPERATIONAL HIGHLIGHTS (CONTINUED)

and increasing costs for staff, benefits, insurance, and utilities.

We operate in a severely economically depressed area. The City of Highland Park is itself also severely financially troubled.

The financial pressures we face will likely necessitate cut backs on staff and on unit maintenance, and result in reduced services to tenants.

We have 13 units with lead-based paint present and have not had any funding from HUD to deal with it in many years.

We are planning on building replacement houses in the years ahead to replace demolished units, but only when the funds are available.

We have unresolved financial issues with the City over payroll deductions for taxes, retirement, and insurance not remitted to the government, qualified plan, and insurance provider, respectively. Also, loan payment deductions for employee loans against their 401 Plan accounts were not forwarded by the City to the plan administrator. We hope to be able to resolve these issues with the City's new Emergency Finance Manager.

Executive Director Hiring. The Board of Commissioners of the Highland Park Housing Commission still needs to resolve the issue of hiring an Executive Director. This hiring action has been delayed since October 2006 due to the City's Emergency Finance Manager's (EFM) sending a letter impeding the board in continuing their process of hiring the Executive Director they had selected. Our agency has not had a permanent Executive Director in over two years.

The board's hiring action was delayed due to the City's Emergency Finance Manager's claim that he alone could appoint the Executive Director of the housing commission, not the Board of Commissioners. This contradicts Michigan's Public Act 18 and the City's own Ordinance 939. Further, HUD's legal counsel determined that the Board has the duty and responsibility to hire for the Executive Director position. The board has not yet resolved this issue at the time of this writing.

We expect to get competent legal counsel and help the board move ahead with the hiring process. Resolving the agency's leadership is crucial with all the challenges it is facing.

We lost a significant amount of money in the fiscal year just ended and are in a weaker position financially compared to the prior year. We are dependent upon our Capital Fund money, which is not guaranteed each year from HUD. We have very little excess cash at this time.

We have no debt, long-term or short-term, beyond two year's PILOT owed to the City. The City has a new Emergency Finance Manager

OPERATIONAL HIGHLIGHTS (CONTINUED)

(EFM) with whom we can work on issues. and we are making plans to pay off the back PILOT in the next week. We expect to pay the prior year's PILOT in the next month. When the PILOT is paid to the City, we will have no debt.

There are no other currently known facts, decisions, or conditions that are expected to have a significant effect on financial position(net assets) or results of operations(revenues, expenses, and other changes in net assets).

CAPITAL ASSETS

Capital Assets - The Highland Park Housing Commission's investment in capital assets, as of September 30, 2006 amounts to \$3,488,127 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment and construction in progress.

CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION DECEMBER 31,

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>
Land	\$ 122,633	\$ 122,633	\$
Building	2,034,474	2,034,474	
Furniture, equip. & machinery-dwelling	606,256	606,256	
Furniture, equip. & machinery-admin.	65,773	62,752	3,021
Building improvements	3,569,927	3,569,927	
Construction in progress	<u>153,064</u>	<u>130,914</u>	<u>22,150</u>
	6,552,127	6,526,956	25,171
Accumulated depreciation	<u>(3,064,000)</u>	<u>(2,780,562)</u>	<u>(283,438)</u>
Total	<u>\$3,488,127</u>	<u>\$3,746,394</u>	<u>\$(258,267)</u>

The total decrease in the Commission's capital assets for the current fiscal year was \$258,267 or 6.8% in terms of net book value. The capital expenditures during the current fiscal year included \$22,150 to an architect from the 2004 CFP grant and lighting and cameras.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that the federal government will continue to provide us with the funding to continue to provide safe, sanitary, and decent housing to our residents.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Kyle Forrest, Acting Executive Director
13725 John R
Highland Park, Michigan 48203

FINANCIAL STATEMENTS

HIGHLAND PARK HOUSING COMMISSION

STATEMENT OF NET ASSETS

September 30, 2006

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ASSETS

Current Assets:

Cash	\$ 61,434
Receivable, net of allowances:	
Accounts	26,065
Investments-unrestricted	240,593
Inventory, net of allowances	6,481
Prepaid expenses	<u>9,924</u>

Total Current Assets	<u>344,497</u>
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Capital Assets:

Land	122,633
Buildings	2,034,474
Equipment	672,029
Building improvements	3,569,927
Construction work in progress	<u>153,064</u>
	6,552,127
Less: accumulated depreciation	<u>(3,064,000)</u>

Net Capital Assets	<u>3,488,127</u>
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Total Assets	<u><u>\$ 3,832,624</u></u>
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See notes to financial statements

HIGHLAND PARK HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2006
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LIABILITIES and NET ASSETS

Current Liabilities:	
Bank overdraft	\$ 75,177
Accounts payable	19,619
Tenant security deposit liability	27,112
Accrued expenses	34,906
Deferred revenues	<u>2,741</u>
Total Current Liabilities	<u>159,555</u>
Noncurrent Liabilities:	
Noncurrent liabilities-other	9,527
Accrued compensated absences	<u>44,613</u>
Total Noncurrent Liabilities	<u>54,140</u>
Total Liabilities	<u>213,695</u>
Net Assets:	
Invested in capital assets	3,488,127
Unrestricted net assets	<u>130,802</u>
Total Net Assets	<u>3,618,929</u>
Total Liabilities and Net Assets	<u>\$ 3,832,624</u>

See notes to financial statements

HIGHLAND PARK HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS

Year Ended September 30, 2006

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OPERATING REVENUES:

Dwelling rent	\$ <u>421,258</u>
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OPERATING EXPENSES:

Administration	236,942
Tenant services	54,252
Utilities	306,122
Ordinary maintenance and operation	446,817
Protective services	76,826
General expenses	140,442
Extraordinary maintenance	4,285
Depreciation	<u>285,418</u>

Total operating expenses	<u>1,551,104</u>
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Operating income(loss)	<u>(1,129,846)</u>
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NONOPERATING REVENUES:

Investment interest income	7,272
Other income	19,421
Other government grants	12,600
Operating grants	629,244
Capital grants	<u>202,251</u>

Total nonoperating revenues	<u>870,788</u>
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Change in net assets	(259,058)
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Prior period adjustments	497
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Net assets, beginning	<u>3,877,490</u>
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Net assets, ending	<u>\$ 3,618,929</u>
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See notes to financial statements

HIGHLAND PARK HOUSING COMMISSION

STATEMENT OF CASH FLOWS

Year Ended September 30, 2006

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CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 417,079
Cash payments to other suppliers of goods and services	(670,535)
Cash payments to employees for services	(511,604)
Cash payments for in lieu of taxes	<u>(85,972)</u>
Net cash (used) by operating activities	<u>(851,032)</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Tenant security deposits	(263)
Operating grants	629,244
Other government grants	12,600
Other revenue	<u>19,421</u>
Net cash provided by noncapital financing activities	<u>661,002</u>

CASH FLOWS FROM CAPITAL AND RELATED

FINANCING ACTIVITIES:

Capital grants	202,251
Payments for capital acquisitions	<u>(26,534)</u>
Net cash provided by capital and related financing activities	<u>175,717</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investments decreased	1,350
Receipts of interest and dividends	<u>7,272</u>
Net cash provided by investing activities	<u>8,622</u>

Net increase(decrease) in cash (5,691)

Cash, beginning 67,125

Cash, ending \$ 61,434

HIGHLAND PARK HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2006

=====

RECONCILIATION OF OPERATING INCOME(LOSS)
TO NET CASH PROVIDED (USED) BY
OPERATING ACTIVITIES:

Operating income(loss)	\$(1,129,846)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	285,418
Allowance for doubtful accounts	2,132
Prior period adjustments	497
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(3,916)
Prepaid expenses and other assets	(9,924)
Increase (decrease) in liabilities:	
Bank overdraft	75,177
Accounts payable	(12,777)
Accrued wages/payroll taxes	(171)
Accrued compensated absences	21,677
Accrued payments in lieu of taxes	(79,036)
Deferred revenues	(263)
Net cash (used) by operating activities	<u>\$(851,032)</u>

See notes to financial statements

HIGHLAND PARK HOUSING COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
September 30, 2006
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Highland Park Housing Commission (Housing Commission) is a component unit of the City of Highland Park, a Michigan home rule City. The Housing Commission is a Public Housing Agency created by the City of Highland Park on March 12, 1970, consisting of a five member board appointed by the City Mayor. The Commission was established to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1(a) Financial Reporting Entity

The Housing Commission's financial reporting entity comprises the following:

Primary Government: Highland Park Housing Commission

In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14 as amended by GASB No. 39, "The Financial Reporting Entity", and includes all component units, if any, of which the Housing Commission appointed a voting majority of the units' board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

1(b) Basis of Presentation

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Housing Commission's programs as an enterprise fund.

Following is a description of the Housing Commission's programs:

Program	Brief Description
Low Rent	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing commissions to modernize public housing developments.

1(c) Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements, the "economic resources" measurement focus is used as follows:

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1(d) Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2(b) and 3(a).

Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accrued interest receivable and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

Inventories are valued at average cost, and consist of expendable supplies held for consumption. The cost of inventories are recorded as expenditures when consumed, rather than when purchased.

Budgets and Budgetary Accounting

The Commission adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

Estimates and Assumptions

The Housing Commission uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and

expenses.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$500 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses, and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40 years
Furniture, equipment and machinery	5 - 15 years
Building improvements	15 - 40 years

Compensated Absences

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave: The Housing Commission provides leave benefits for its employees based on the policy of the City of Highland Park. The personnel policy provides that, upon termination, employees will be paid all accumulated annual leave at their rate of pay upon termination.

The amount of accumulated benefits at September 30, 2006, was \$59,484, and is recorded as a liability in the applicable programs.

Equity Classifications

Equity is classified as net assets and displayed in two components:

- a. Invested in capital assets, net of related debt: Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding

balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Housing Commission had no related debt.

- b. Unrestricted net assets: All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

1(e) Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

Interfund Transfers

For the purposes of the Statement of Revenues, Expenses, and Changes in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Housing Commission and its component units, if any, are subject to various federal, state, and local laws and contractual regulations. An analysis of the Housing Commission's compliance with significant laws and regulations and demonstration of its stewardship over Housing Commission resources follows:

2(a) Program Accounting Requirements

The Housing Commission complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Housing Commission are as follows:

Program	Required By
Public and Indian Housing	U.S. Department of HUD
Capital Fund Program	U.s. Department of HUD

2(b) Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of the Housing Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Housing Commission must have a written collateral agreement. As reflected in Note 3(a), all deposits were fully insured or collateralized.

Investments of the Housing Commission are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

2(c) Revenue Restrictions

The Housing Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

<i>Revenue Source</i>	<i>Legal Restrictions of Use</i>
Capital Fund Program	Modernization

For the fiscal year ended September 30, 2006, the Housing Commission did not comply in all material respects, with these revenue restrictions. The Housing Commission used over 20% of the Capital Fund Program funding for operating purposes.

2(d) Income Taxes

As a component unit of a Michigan City, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 3: DETAIL NOTES ON TRANSACTIONS CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3(a) Cash and Investments

Deposits

The Housing Commission's policies regarding deposits of cash are discussed in Note 1(d). The table presented below is designed to disclose the level of custody credit risk assumed by the Housing Commission based upon how its deposits were insured or secured with collateral at September 30, 2006. The categories of credit risk are defined as follows:

Category 1: Insured by FDIC or collateralized with securities held by the Housing Commission(or public trust) or by its agent in its name.

Category 2: Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Commission's name.

Category 3: Uninsured and uncollateralized; or collateralized with securities held by the pledging financial, or by its trust department or agent but not in the Housing Commission's name; or collateralized with no written or approved collateral agreement.

	Total Bank Balance	Custody Credit Risk			Total Carrying Value
		Category 1	Category 2	Category 3	
Demand deposits	\$ 23,765	\$ 23,765	\$	\$	\$ 23,449
Certificate of deposit	37,735	37,735			37,735
Total Deposits	<u>\$ 61,500</u>	<u>\$ 61,500</u>	<u>\$</u>	<u>\$</u>	<u>\$ 61,184</u>

Investments

The Housing Commission's policies and applicable laws regarding investments are discussed in Notes 1(d) and 2(b). The table presented below is designed to disclose the level of market risk and custody credit risk assumed by the Housing Commission (or public trust) based upon whether the investments are insured or registered and upon who holds the security at September 30, 2006. The categories of credit risk are defined as follows:

Category 1: Insured or registered with securities held by the Housing Commission or its agent in the Housing Commission's name.

Category 2: Uninsured and unregistered with securities held by counterparty's trust department or agent in the Housing Commission's name.

Category 3: Uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the Housing Commission's name.

	Custody Credit Risk				
	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
Treasury notes	\$200,179	\$	\$	\$ 200,179	\$200,179
Money market	14,438			14,438	14,438
Certificate of deposit	25,976			25,976	25,976
	<u>\$240,593</u>	<u>\$</u>	<u>\$</u>	<u>\$ 240,593</u>	<u>\$240,593</u>

A reconciliation of cash as shown on the combined statement of net assets follows:

Carrying amount of deposits	\$ 61,184
Petty cash	250
Investments	240,593
Total	<u>\$ 302,027</u>

Cash and cash equivalents:	
Enterprise activities	\$ 302,343
Enterprise activities - deposits in transit	-
Enterprise activities - checks written in excess of deposits	(316)
Total	<u>\$ 302,027</u>

3(b) Accounts Receivable

Receivables detail at September 30, 2006, is as follows:

Accounts receivable-former employee	\$ 8,961
Tenant accounts receivable	22,783
Allowance for doubtful accounts	(5,679)
	<u>\$ 26,065</u>

3(c) Capital Assets

Capital asset activity for the year ended September 30, 2006 was as follows:

	<u>Balance</u> <u>09/30/05</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>09/30/06</u>
Low Rent Program			
Land	\$ 122,633	\$	\$ 122,633
Buildings	2,034,474		2,034,474
Furniture, equip. & machinery - dwellings	606,256		606,256
Furniture, equip. & machinery - administration	62,752	3,021	65,773
Building improvements	<u>3,569,927</u>		<u>3,569,927</u>
	6,396,042	<u>\$ 3,021</u>	<u>6,399,063</u>
Less accumulated depreciation	<u>(2,780,562)</u>	<u>\$ (285,418)</u>	<u>(3,064,000)</u>
Total	<u>\$ 3,615,480</u>		<u>\$ 3,335,063</u>
Capital Fund Program			
Construction in progress	<u>\$ 130,914</u>	<u>\$ 22,150</u>	<u>\$ 153,064</u>
Combined Totals			<u>\$ 3,488,127</u>

3(d) Accounts Payable

Payable detail at September 30, 2006, is as follows:

Accounts payable - vendors	\$ 12,683
Accounts payable - other government - PILOT	6,936
	<u>\$ 19,619</u>

3(e) Accrued expenses

Accrued wage/payroll taxes payable	\$	20,035
Accrued compensated absences-current portion		<u>14,871</u>
	\$	<u>34,906</u>

3(f) Non-current Liabilities

Accounts payable - other government - PILOT	\$	9,527
Accrued compensated absences-noncurrent portion		<u>44,613</u>
	\$	<u>54,140</u>

3(g) Interprogram Transactions and Balances

The Capital Fund Program transferred \$180,101 to the Low Rent Program during the fiscal year ending September 30, 2006.

There were no interprogram receivables or payables.

NOTE 4: Other Information

4(a) Pension Plan

The Housing Commission pays 6% of salaries and the employees pay 6% toward a defined contribution retirement plan, which covers substantially all employees. Plan provisions and contribution requirements are established and may be amended by the Highland Park Housing Commission. The retirement benefits are guaranteed by Interstate City County Managers Associates.

4(b) Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

4(c) Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

4(d) Subsequent Events

The Office of Inspector General (OIG) began an audit of the Housing Commission early in 2007. It is expected to take about one year to complete.

The Detroit office of HUD, began an audit of the Housing Commission's programs and policies on June 25, 2007 and will issue a Memorandum of Agreement (MOA) shortly after their audit is completed.

NOTE 5: Prior Period Adjustments

Low Rent Program

The ending net assets were incorrect from the
prior year

\$ 497

SUPPLEMENTARY INFORMATION

HIGHLAND PARK HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
BY PROGRAM

September 30, 2006

=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
ASSETS		
Current assets:		
Cash	\$ 61,434	\$
Accounts receivable-miscellaneous	8,961	
Accounts receivable-dwelling rents	22,783	
Allowance for doubtful accounts- dwelling rents	(5,679)	
Investments-unrestricted	240,593	
Prepaid expenses and other assets	9,924	
Inventory	<u>6,481</u>	
Total current assets	<u>344,497</u>	
Capital assets:		
Land	122,633	
Buildings	2,034,474	
Equipment	672,029	
Building improvements	3,569,927	
Construction in progress		<u>153,064</u>
	6,399,063	153,064
Less accumulated depreciation	<u>(3,064,000)</u>	
Net capital assets	<u>3,335,063</u>	<u>153,064</u>
Total Assets	<u>\$ 3,679,560</u>	<u>\$ 153,064</u>

Totals

\$ 61,434
8,961
22,783

(5,679)
240,593
9,924
6,481

344,497

122,633
2,034,474
672,029
3,569,927
153,064
6,552,127
(3,064,000)

3,488,127

\$ 3,832,624

HIGHLAND PARK HOUSING COMMISSION
 COMBINING STATEMENT OF NET ASSETS
 BY PROGRAM (CONTINUED)
 September 30, 2006
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Bank overdraft	\$ 75,177	
Accounts payable	19,619	\$
Tenant security deposit liability	27,112	
Accrued expenses	34,906	
Deferred revenues	<u>2,741</u>	
Total current liabilities	<u>159,555</u>	
Noncurrent liabilities:		
Noncurrent liabilities-other	9,527	
Accrued compensated absences	<u>44,613</u>	
Total noncurrent liabilities	<u>54,140</u>	
Total liabilities	<u>213,695</u>	
Net assets:		
Invested in capital assets	3,335,063	153,064
Unrestricted net assets	<u>130,802</u>	
Total net assets	<u>3,465,865</u>	<u>153,064</u>
Total Liabilities and Net Assets	<u>\$3,679,560</u>	<u>\$ 153,064</u>

Totals

\$ 75,177
19,619
27,112
34,906
2,741

159,555

9,527
44,613

54,140

213,695

3,488,127
130,802

3,618,929

\$ 3,832,624

HIGHLAND PARK HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS BY PROGRAM**
 Year Ended September 30, 2006

=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 421,258	\$ _____
OPERATING EXPENSES:		
Administration	236,942	
Tenant services	54,252	
Utilities	306,122	
Ordinary maintenance and operation	446,817	
Protective services	76,826	
General expenses	140,442	
Extraordinary maintenance	4,285	
Depreciation	<u>285,418</u>	_____
Total operating expenses	<u>1,551,104</u>	_____
Operating income(loss)	<u>(1,129,846)</u>	_____
NONOPERATING REVENUES(EXPENSES) :		
Operating transfers in(out)	180,101	(180,101)
Other government grants	12,600	
Investment interest income	7,272	
Other income	19,421	
Operating grants	629,244	
Capital grants	_____	<u>202,251</u>
Total nonoperating revenues (expenses)	<u>848,638</u>	<u>22,150</u>
Change in net assets	(281,208)	22,150
Prior period adjustments, equity transfers, correction of errors	497	
Net assets, beginning	<u>3,746,576</u>	<u>130,914</u>
Net assets, ending	<u>\$3,465,865</u>	<u>\$153,064</u>

Totals

\$ 421,258

236,942

54,252

306,122

446,817

76,826

140,442

4,285

285,418

1,551,104

(1,129,846)

12,600

7,272

19,421

629,244

202,251

870,788

(259,058)

497

3,877,490

\$ 3,618,929

HIGHLAND PARK HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
BY PROGRAM

Year Ended September 30, 2006

=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 417,079	\$
Cash payments to other suppliers of goods and services	(670,535)	
Cash payments to employees for services	(511,604)	
Cash payments for in lieu of taxes	<u>(85,972)</u>	
Net cash (used) by operating activities	<u>(851,032)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers in(out)	180,101	(180,101)
Tenant security deposits	(263)	
Operating grants	629,244	
Other government grants	12,600	
Other revenue	<u>19,421</u>	
Net cash provided(used) by noncapital financing activities	<u>841,103</u>	<u>(180,101)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants		202,251
Payments for capital acquisitions	<u>(4,384)</u>	<u>(22,150)</u>
Net cash provided(used) by capital and related financing activities	<u>(4,384)</u>	<u>180,101</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments decreased	1,350	
Receipts of interest and dividends	<u>7,272</u>	
Net cash provided by investing activities	<u>8,622</u>	
Net increase(decrease) in cash	(5,691)	
Cash, beginning	<u>67,125</u>	
Cash, ending	<u><u>\$ 61,434</u></u>	<u><u>\$</u></u>

Totals

\$ 417,079

(670,535)
(511,604)
(85,972)

(851,032)

(263)
629,244
12,600
19,421

661,002

202,251
(26,534)

175,717

1,350
7,272

8,622

(5,691)

67,125

\$ 61,434

HIGHLAND PARK HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
BY PROGRAM (CONTINUED)

Year Ended September 30, 2006

=====

	Low Rent Program	Capital Fund Program
	<u>14.850</u>	<u>14.872</u>

RECONCILIATION OF OPERATING INCOME
(LOSS) TO NET CASH PROVIDED(USED)

BY OPERATING ACTIVITIES:

Operating income(loss)	\$(1,129,846)	\$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	285,418	
Bad debt allowance change	2,132	
Prior period adjustments	497	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(3,916)	
Prepaid expenses and other assets	(9,924)	
Increase (decrease) in liabilities:		
Bank overdraft	75,177	
Accounts payable	(12,777)	
Accrued wages/payroll taxes	(171)	
Accrued compensated absences	21,677	
Accrued payments in lieu of taxes	(79,036)	
Deferred revenues	<u>(263)</u>	
Net cash (used) by operating activities	<u>\$(851,032)</u>	<u>\$</u>

Totals

\$ (1,129,846)

285,418
2,132
497

(3,916)

(9,924)

75,177
(12,777)
(171)
21,677

(79,036)
(263)

\$ (851,032)

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2006
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal</u> <u>Year</u>	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Major - Direct Program</u>		
2006	Low Rent Public Housing	14.850	\$ 629,244
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2006	Capital Fund Program	14.872	<u>202,251</u>
	Total		<u>\$ 831,495</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

HIGHLAND PARK HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended September 30, 2006

=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 23,410	\$
114	Cash-tenant security deposits	<u>38,024</u>	<u></u>
100	Total cash	<u>61,434</u>	<u></u>
	Receivables:		
125	A/R-miscellaneous	8,961	
126	A/R-tenants-dwelling rents	22,783	
126.1	Allowance for doubtful accounts-dwelling rent	<u>(5,679)</u>	<u></u>
120	Total receivables, net of allowance for doubtful accounts	<u>26,065</u>	<u></u>
	Current Investments:		
131	Investments-unrestricted	<u>240,593</u>	<u></u>
	Other Current Assets:		
142	Prepaid expenses and other assets	9,924	
143	Inventory	<u>6,481</u>	<u></u>
	Total other current assets	<u>16,405</u>	<u></u>
150	Total current assets	<u>344,497</u>	<u></u>
	Noncurrent Assets:		
	Fixed assets:		
161	Land	122,633	
162	Buildings	2,034,474	
163	Furn, equip & mach-dwellings	606,256	
164	Furn, equip & mach-admin.	65,773	
165	Building improvements	3,569,927	
166	Accumulated depreciation	(3,064,000)	
167	Construction in progress	<u></u>	<u>153,064</u>
160	Total fixed assets, net of accumulated depreciation	<u>3,335,063</u>	<u>153,064</u>
180	Total noncurrent assets	<u>3,335,063</u>	<u>153,064</u>
190	Total Assets	<u>\$ 3,679,560</u>	<u>\$ 153,064</u>

Totals

\$ 23,410
38,024

61,434

8,961
22,783

(5,679)

26,065

240,593

9,924
6,481

16,405

344,497

122,633
2,034,474
606,256
65,773
3,569,927
(3,064,000)
153,064

3,488,127

3,488,127

\$ 3,832,624

HIGHLAND PARK HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended September 30, 2006

=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY/NET ASSETS			
	Liabilities:		
	Current Liabilities:		
311	Bank Overdraft	\$ 75,177	\$
312	Accounts payable<=90 days	12,683	
321	Accrued wage/payroll taxes payable	20,035	
322	Accrued compensated absences-current portion	14,871	
333	Accounts payable-other government	6,936	
341	Tenant security deposits	27,112	
342	Deferred revenues	<u>2,741</u>	
310	Total current liabilities	<u>159,555</u>	
	Noncurrent Liabilities:		
353	Noncurrent liabilities-other	9,527	
354	Accrued compensated absences	<u>44,613</u>	
	Total noncurrent liabilities	<u>54,140</u>	
300	Total liabilities	<u>213,695</u>	
	Equity:		
508.1	Invested in capital assets	<u>3,335,063</u>	<u>153,064</u>
508	Total equity	3,335,063	153,064
	Net Assets:		
512.1	Unrestricted net assets	<u>130,802</u>	
513	Total equity/net assets	<u>3,465,865</u>	<u>153,064</u>
600	Total Liabilities and Equity/Net Assets	<u>\$3,679,560</u>	<u>\$ 153,064</u>

Totals

\$ 75,177
12,683

20,035

14,871

6,936

27,112

2,741

159,555

9,527

44,613

54,140

213,695

3,488,127

3,488,127

130,802

3,618,929

\$ 3,832,624

HIGHLAND PARK HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended September 30, 2006

=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 421,258	\$
706	HUD PHA grants	629,244	
706.1	Capital grants		202,251
708	Other government grants	12,600	
711	Investment income-unrestricted	7,272	
715	Other revenue	<u>19,421</u>	
700	Total revenue	<u>1,089,795</u>	<u>202,251</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	111,335	
912	Auditing fees	7,200	
915	Employee benefit contributions-adm.	55,667	
916	Other operating-administrative	62,740	
	Tenant Services:		
921	Tenant services-salaries	35,720	
923	Employee benefit contributions-adm.	18,532	
	Utilities:		
931	Water	166,226	
932	Electricity	102,141	
933	Gas	37,755	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	172,680	
942	Ordinary maint & oper-mat'ls & other	62,892	
943	Ordinary maint & oper-contract costs	125,894	
945	Employee benefit contributions-ordinary maintenance	85,351	
951	Protective services-labor	50,267	
952	Protective services-other contract costs	17,741	
953	Protective services-other	5,260	
955	Employee benefit contributions-protective services	3,558	
	General expenses:		
961	Insurance premiums	113,722	
963	Payments in lieu of taxes	6,936	
964	Bad debt-tenant rents	<u>19,784</u>	
969	Total operating expenses	<u>1,261,401</u>	
970	Excess operating revenue over operating expenses	<u>(171,606)</u>	<u>202,251</u>

<u>Totals</u>	
\$	421,258
	629,244
	202,251
	12,600
	7,272
	<u>19,421</u>
	<u>1,292,046</u>

111,335
7,200
55,667
62,740

35,720
18,532

166,226
102,141
37,755

172,680
62,892
125,894

85,351
50,267

17,741
5,260

3,558

113,722
6,936
<u>19,784</u>

<u>1,261,401</u>

<u>30,645</u>

HIGHLAND PARK HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended September 30, 2006

=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	4,285	
974	Depreciation expense	<u>285,418</u>	
	Total other expenses	<u>289,703</u>	
900	Total expenses	<u>1,551,104</u>	
	Other Financing Sources (Uses)		
	Operating transfers in(out)	<u>180,101</u>	(<u>180,101</u>)
1000	Excess (deficiency) of operating revenue over(under) expenses	(281,208)	22,150
1103	Beginning Net Assets	3,746,576	130,914
1104	Prior period adjustments, equity transfers, and correction of errors	<u>497</u>	
	Ending Net Assets	<u>\$ 3,465,865</u>	<u>\$ 153,064</u>

Totals

4,285
285,418

289,703

1,551,104

(259,058)

3,877,490

497

\$ 3,618,929

**Report on Compliance and on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Board of Housing Commissioners
Highland Park Housing Commission
Highland Park, Michigan

I have audited the financial statements of the business-type activities of the Highland Park Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated June 21, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Housing Commission's, ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The reportable conditions described above, I consider to be material weaknesses.

Report on Compliance and on Internal Control over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
Highland Park Housing Commission
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as items 05-8 and 06-3.

I also noted certain additional matters that I reported to management of the Housing Commission, in a separate letter dated June 21, 2007.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barry E. Sandlett, CPA

June 21, 2007

**Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Highland Park Housing Commission
Highland Park, Michigan

Compliance

I have audited the compliance of the Highland Park Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

As described in item 05-3, 05-10, and 06-2 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding cash management that are applicable to its Low Rent Program. As described in item 06-3 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding allowable costs that are applicable to its Low Rent Program. As described in items

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Highland Park Housing Commission
Page Two

Compliance - Continued

06-1 and 06-4 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding reporting that are applicable to its Low Rent Program. As described in items 06-5, 06-6, 06-7, 06-8, 06-9, and 06-10 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding eligibility that are applicable to its Low Rent Program. As described in item 06-11 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding special tests and provisions that are applicable to its Low Rent Program.

Compliance with such requirements is necessary, in my opinion, for the Housing Commission, to comply with requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, the Housing Commission, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

I also noted certain additional matters that I reported to management of the Housing Commission, in a separate letter dated June 21, 2007.

Internal Control Over Compliance

The management of the Housing Commission, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Housing Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 05-9, and items 06-5 through 06-10.

Report of Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Highland Park Housing Commission
Page Three

Internal Control over Compliance (continued)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider item 05-9, and items 06-5 through 06-10 to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sary E. Landolt, CPA, PC

June 21, 2007

HIGHLAND PARK HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
September 30, 2006
=====

Finding 05-1: Year Ended September 30, 2005

Criteria:

Michigan Department of Treasury regulations require that all invoices must be approved by the Board prior to payment unless otherwise addressed in a formal policy.

Statement of Condition:

The Housing Commission pays invoices on a weekly basis. The Board meets once a month.

Questioned Costs:

There are no questioned costs.

Perspective Information:

The Housing Commission's internal controls include check preparation by someone other than a check signer, software to prepare the checks, two check signers are required (including the Executive Director and a commissioner), the invoices are approved and examined by each check signer, and the Board approves a list of paid invoices at the monthly board meetings.

Cause and Effect:

If the Board approves the invoices (with approved exceptions) before they are paid, it provides another internal control. The Board is ultimately responsible for the expenditures being legal and authorized.

Recommendation:

The Board must approve all invoices prior to payment, unless addressed otherwise in a formal policy.

I recommend that the Board establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the Board for approval.

Finding Cleared:

The Housing Commission board approved a new "bill payment policy" during the May 2007 board meeting.

HIGHLAND PARK HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
(Continued)

September 30, 2006

=====

Finding 05-2: Year Ended September 30, 2005

Criteria:

Illegal or unauthorized expenditures are defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (Appendix H).

Statement of Condition:

The Housing Commission made payments for flowers to the sick or departed and office refreshments and meals for Board meetings.

Questioned Costs:

Payments for flowers during the fiscal year totaled \$162.55. Payments for office refreshments were minimal, i.e. less than \$200.00 for the fiscal year. Meals for Board meetings were about \$100 per meeting. The Board meets monthly.

Perspective Information:

The Housing Commission caters in a meal for each monthly board meeting. Office refreshments would have been paid out of petty cash.

Cause and Effect:

The Board may not have been aware that these are illegal expenditures.

Recommendation:

I recommend that office refreshments, donations to nonprofit organizations and flowers not be done in the future.

Finding Cleared:

The Housing Commission stopped providing meals for the board meetings since July 2006. On May 26, 2006 flowers were purchased for the sick or departed, but I didn't notice any other such purchases since then.

HIGHLAND PARK HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
(Continued)

September 30, 2006

=====

Finding 05-3: Year Ended September 30, 2005 and 2006

Criteria:

HUD has a guideline of \$15 per tenant of receivables for rents.

Statement of Condition:

The Housing Commission as of September 30, 2006, had a accounts receivable from tenants balance of \$18,866.66. There were 169 tenants with a positive balance, therefore, the average balance is \$112 per tenant.

Questioned Costs:

There were no questioned costs.

Perspective Information:

The Housing Commission has a total of 198 units. As of September 30, 2006, there were 23 units that were vacant. Six of the tenants have a negative rent and 169 tenants have a positive rent.

Cause and Effect:

The Housing Commission is not following its own written procedures to collect rent from tenants that are delinquent. The effect is that the Housing Commission is losing rents and cash flow. The Housing Commission has shown a lot of compassion towards residents, where their procedures to collect rent from tenants were inconsistent. The Housing Commission accommodated too much, which places the Housing Commission in the red a lot of times.

Recommendation:

I recommend that the Housing Commission begin following it's own rent collection policy and be consistent in collecting rents that are delinquent.

Repeat Finding:

As of September 30, 2006 the tenant accounts receivable was \$22,783 with an allowance for bad debts of \$5,679. The net amount represents almost 50% of the monthly rent roll. The Housing Commission should begin getting this to below 10%. Also, the Housing Commission could write off accounts that it doesn't expect to collect during the month of September to reduce the accounts receivable balance as of September 30th.

HIGHLAND PARK HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
(Continued)

September 30, 2006

=====

Finding 05-4: Year Ended September 30, 2005

Criteria:

The Michigan Department of Treasury instructions for completing Form 496, *Auditing Procedures Report* state that bank reconciliations should be performed timely (approximately six weeks subsequent to month end).

Statement of Condition:

The bank reconciliations as of September 30, 2005 were prepared more than three months after the fiscal year end.

Questioned Costs:

There were no questioned costs.

Perspective Information:

The Housing Commission has general, payroll, and security deposit checking accounts. The bank accounts are now being reconciled within six weeks of the month end.

Cause and Effect:

The Finance Manager is responsible for preparing the bank reconciliations. The effect is that the Housing Commission does not know the balances in its checking accounts timely.

Finding Cleared:

During the fiscal year ending September 30, 2006 the bank reconciliations were prepared timely.

HIGHLAND PARK HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
(Continued)

September 30, 2006

=====

Finding 05-5: Year Ended September 30, 2005

Criteria:

HUD regulations does not approve of loans to employees.

Statement of Condition:

There is one employee as of September 30, 2006 who has overused 5.56 days of leave time.

Questioned Costs:

The amount in question is approximately \$676.

Perspective Information:

There were ten employees employed by the Housing Commission during the fiscal year. This employee explained that the days are made up the following pay period.

Cause and Effect:

The Housing Commission is not enforcing its own compensated absences policy.

Recommendation:

I recommend that an employee not be paid any compensation if there isn't enough leave time available.

Finding Cleared:

As of September 30, 2006 there were no employees with overused days of leave time. Although, there wasn't any overused days of leave time at the year end, this problem could resurface without constant monitoring by the Housing Commission staff.

HIGHLAND PARK HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
(Continued)

September 30, 2006

=====

Finding 05-6: Year Ended September 30, 2005

Criteria:

HUD does not approve of presigning checks.

Statement of Condition:

During my fraud risk assessment inquiries, it was discovered that the Housing Commission has been keeping presigned checks on hand in a locked file.

Questioned Costs:

There are no questioned costs.

Perspective Information:

The Housing Commission's annual budget is over a million dollars and there is over \$300,000 of cash in the banks at one time.

Cause and Effect:

Presigning checks is done to make it convenient for paying a bill when nobody is available to sign the checks. This is a serious internal control issue.

Recommendation:

I recommend this practice be discontinued immediately.

Finding Cleared:

The practice of presigning checks has been discontinued.

HIGHLAND PARK HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
(Continued)

September 30, 2006

=====

Finding 05-7: Year Ended September 30, 2005

Criteria:

HUD regulations require that the Housing Commission follow it's own policies.

Statement of Condition:

The Housing Commission's personnel policy states that an employee's adult children cannot receive health insurance benefits. There are two employees who each have one adult child on the health insurance policy as a rider.

Questioned Costs:

There are no questioned costs, because the Executive Director approved of the rider in a written request to the insurance carrier.

Perspective Information:

There are nine employees receiving health insurance benefits as of May 1, 2006.

Cause and Effect:

The Board apparently was not made aware of the riders by the Executive Director.

Recommendation:

I recommend that the personnel policy be followed. If the Board would like to pay for adult children, the personnel policy should be changed.

Finding Cleared:

The Housing Commission board voted to follow the existing policy of not covering adult children with health insurance even if they are attending college for future situations. There was not any action taken on the amounts that were paid in the past for adult children that were attending college.

HIGHLAND PARK HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
(Continued)

September 30, 2006

=====

Finding 05-8: Year Ended September 30, 2005 and 2006

Criteria:

The Michigan Department of Labor requires that overtime be paid at time and a half, unless the employee is salaried and supervises personnel.

Statement of Condition:

The Housing Commission has a policy in place that pays no overtime, but keeps track of hours over 40 hours per week and this comp time is tracked independently and decremented when employee takes time off. This time is accumulated at straight time.

Questioned Costs:

There are no questioned costs.

Perspective Information:

There are nine employees currently that receive this benefit.

Cause and Effect:

The Housing Commission may not be aware of the Department of Labor rules. The Housing Commission is at risk of having a Department of Labor audit and paying back wages for several years.

Recommendation:

I recommend that if the Housing Commission continues this comp policy, that it compute the extra hours at time and a half on at least a weekly basis. Also, my recommendation would be to eliminate this the comp policy completely.

Repeat Finding:

The Housing Commission has not taken any action on this finding.

HIGHLAND PARK HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
(Continued)

September 30, 2006

=====

Finding 05-9: Year Ended September 30, 2005 and 2006

Criteria:

HUD regulations require the Housing Commission follow its administrative policy that includes the timely collection of tenant rents and basing rents on income.

Statement of Condition:

The Housing Commission has two employees that are residents and as of May 31, 2006 owe several months rent.

Questioned Costs:

The questioned costs, if any, was not determined.

Perspective Information:

This finding involves two employees. As of June 23, 2006, one of the employees is three months behind in rent and the other is seven months behind. The total account receivable totals \$7,928 for these two employees.

Cause and Effect:

These two employees had obtained the approval of management/or the Board to pay a flat rent of \$200 per month. The approval ended on November 1, 2006 when it was made known this was in violation of HUD's rules.

Recommendation:

The employees/tenants should not be treated any differently than any other tenant when delinquent in their rent payments. The minutes stated that an employee should be evicted if rent is not paid, not terminated.

Repeat Finding:

This finding has not been resolved.

HIGHLAND PARK HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
(Continued)

September 30, 2006

=====

Finding 05-10: Year Ending September 30, 2005 and 2006

Criteria:

HUD has a statutory requirement that Housing Commission's have a depository agreement signed by each institution that it has accounts with.

Statement of Condition:

The Housing Commission does not have on file any depository agreements with the bank it has accounts with.

Questioned Costs:

There were no questioned costs.

Perspective Information:

The Housing Commission uses one bank for the deposit of cash.

Cause and Effect:

The Housing Commission is at risk that its deposits are not protected by collateral of the bank.

Recommendation:

I recommend that the Housing Commission obtain a depository agreement with each institution that it has deposits with. In addition, I recommend that the Housing Commission have the agreement specify an amount that is collateralized.

Repeat Finding:

This finding has not been resolved.

HIGHLAND PARK HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
(Continued)

September 30, 2006

=====

Finding 05-11: Year Ending September 30, 2005

Criteria:

The Michigan Open Meetings Act (Act 267 of 1976) require certain meetings of certain public bodies to be open to the public; to require notice and the keeping of minutes of meetings.

Statement of Condition:

The Housing Commission Board meets monthly, the Commissioners and five employees usually attend and tenants can attend if they choose to. The Board then meets with the tenants after the meeting in another room to answer any questions or concerns they may have. There is not much room in the Board room for tenants.

Questioned Costs:

There are no questioned costs.

Perspective Information:

The Board meets monthly.

Cause and Effect:

Tenants may think that the only part of the meeting they can come to is the public hearing portion of the meeting in the separate (more spacious) room.

Recommendation:

I recommend the Board meet in the larger room with chairs placed for the public. Also, the Board may want to consult with HUD/and their attorney to be sure that they are in compliance with Open Meetings Act.

Finding Cleared:

The board began meeting in the community room beginning with the May 2007 board meeting.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 September 30, 2006
 =====

SECTION I: SUMMARY OF AUDIT RESULTS

Financial Statements

1. Type of auditor's report issued: Qualified
2. Internal control over financial reporting:
 - a. Material weakness(es) identified? Yes
 - b. Reportable condition(s) identified that is not a material weaknesses? No
3. Noncompliance material to financial statements noted? Yes
4. Is a "going concern" explanatory paragraph included in the audit report? No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness(es) identified? Yes
 - b. Reportable condition(s) that are not considered to be material weaknesses? No
2. Type of auditor's report issued on compliance for major programs: Qualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes
4. Identification of major programs:

<u>CFDA</u> <u>Number</u>	<u>Federal Program</u>	<u>Amount</u> <u>Expended</u>	<u>Major</u> <u>Program</u>	<u>Compliance</u> <u>Requirement</u>	<u>Audit</u> <u>Findings</u>
14.850	Low Rent Public Housing	\$ 629,244	Yes	C	05-3,8,9,10
				C	06-2
				B	06-3
				L	06-1,4
				E	06-5,6,7,8,9,10
				N	06-11

The threshold for distinguishing Types A and B programs was \$300,000.

The Housing Commission was not determined to be a low-risk auditee.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

SECTION II: FINANCIAL STATEMENT FINDINGS

Finding 06-1: Year Ended September 30, 2006

Criteria:

The Housing Commission is required to submit the "unaudited" financial data schedule(FDS) to HUD's Real Estate Assessment Center(REAC) within 60 days of the fiscal year end.

Statement of Condition:

The Housing Commission tried to submit the "unaudited" FDS to REAC timely on the date it is was due, but the REAC site was down and REAC would not allow the submission after the due date.

Questioned Costs:

There are no questioned costs.

Perspective Information:

The Housing Commission tried to submit on the 60th day.

Cause and Effect:

The Housing Commission does not use a fee accountant. The Housing Commission has not had a full-time Executive Director during the prior year. Many of the Executive Director duties have been handled by the finance manager, whom has also been given the title "Acting Executive Director". Housing Commission's that do not submit the "unaudited" FDS timely are at risk of becoming a troubled agency.

Recommendation:

I recommend that the Housing Commission contract for a fee accountant and/or file the submission a few days before the deadline.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

SECTION II: FINANCIAL STATEMENT FINDINGS (Continued)

Finding 06-2: Year Ended September 30, 2006

Criteria:

The Highland Park Housing Commission has not in recent years been required to prepare a budget that would need HUD's approval.

Statement of Condition:

The Housing Commission did not prepare a budget for the fiscal year ending September 30, 2006 and as of the date of fieldwork has not prepared a budget for the next fiscal year either.

Questioned Costs:

There are no questioned costs.

Perspective Information:

The Housing Commission has prepared budgets in past years.

Cause and Effect:

Not having a full-time Executive Director or even one at all, is contributing to the problem. The effect is that the Housing Commission is not using a useful planning tool for controlling expenditures.

Recommendation:

I recommend that contract for a fee accountant. Usually the fee accountants provide assistance for preparing the budgets.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

SECTION III: FEDERAL AWARD FINDINGS

Finding 06-3: September 30, 2006

Criteria:

Illegal or unauthorized expenditures are defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (Appendix H). Some of the unallowable expenditures mentioned are contributions to nonprofit organizations and donations to community organizations. Also, OMB Circular A-87 (effective August 31, 2005, 2 CFR Part 225) describes when public relations costs are allowable and that donations and contributions are unallowable under Appendix B to Part 225(1) and (12).

Statement of Condition:

The Housing Commission on April 5, 2006 wrote a check for \$600 to the Reggie McKenzie Foundation for five tickets to attend an event held March 31, 2006 for the Foundation and for an ad. The tickets cost \$100 each and the ad another \$100.

Questioned Costs:

The amount in question is \$600.

Perspective Information:

The Housing Commission board feels that this is a worthwhile expenditure to promote the Housing Commission.

Cause and Effect:

The Housing Commission has been using capital fund program monies for operating expenditures in recent years. Therefore, it is my opinion that any unnecessary expenditures that can be eliminated, especially public relations costs should be avoided.

Recommendation:

I'm not 100% sure that this expenditure is unallowable, but under the circumstances of the Housing Commission using capital fund program monies for operating expenditures, less expensive alternatives to public relations to promote the Housing Commission should be explored.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

SECTION III: FEDERAL AWARD FINDINGS (Continued)

Finding 06-4: Year Ended September 30, 2006

Criteria:

Public Housing Assessment System(PHAS) Management Operations Certification, HUD Form 500072 (OMB No. 2535-0106) - HUD primarily measures housing agencies' management performance through the management operations indicators of its PHAS. This system requires annual electronic filing. PHAS assists HUD in: (a) assisting housing agencies and holding them accountable for providing safe and decent housing and (b) protecting the Federal investment in their properties.

PHAS regulations are at 24 CFR part 902.

Statement of Condition:

The Housing Commission filed the PHAS electronically, but the verification for the MASS (management) section of the certification was not available for me to review.

Questioned Costs:

There are no questioned costs.

Perspective Information:

The Executive Director responsible for the filing of the PHAS certification was not an employee of the Housing Commission at the date of my fieldwork, so it's possible that the documentation supporting the certification was done, but the Housing Commission staff cannot find it.

Cause and Effect:

The filing system of the Housing Commission may not be adequate. The PHAS score of 29 for Management could be reduced to zero.

Recommendation:

I recommend the Housing Commission in the future, keep a separate file to support all of the certifications on PHAS filing.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

SECTION III: FEDERAL AWARD FINDINGS (Continued)

Finding 06-5: Year Ended September 30, 2006

Condition and Criteria:

Documentation to determine eligibility is missing or incorrect in the tenant files.

Effect:

It is difficult to determine if the tenants are eligible for the program without the proper documentation available to review.

Cause:

The staff in charge of this program did not obtain all of the documentation or they did not make sure it was complete and correct.

Population and Items Tested:

The first file was selected and every 19th one after that with the exception of one file which was too new so the next tenant file was chosen from a tenant leasing history report which was provided by the Highland Park Housing Commission. Originally 8 tenant files were selected to test from a population of 155 tenant files to choose from. A 9th tenant file was later tested so that two files were tested from the staff person who is responsible for only thirteen tenant files.

We looked for the following documentation in the files:

	<u># of Exceptions</u>
a. Form HUD-50058	1
b. Privacy Act Notice	2
c. Proper Verification of Income	3
d. Proper Verification of Expenses	5
e. Proper Verification of Assets	7
f. Inspection Report	0
g. Lease	2
h. Application	1
i. Copy of Photo I.D.	2
j. Copy of Social Security Number Verification	3
k. Copy of Birth Certificate	4
l. Income Based/Flat Rent Choice	5
m. Worksheet for HUD-50058	0
n. Notice of Rent Adjustment	1
o. Criminal Background Check	8
p. Declaration of 214 Status	4
q. Check for Previous Eviction from Public Housing	9
r. Family Composition Review	4
s. Waiting List Test (5 new tenants reviewed)	0
Total exceptions	<u>61</u>

Out of a possible 167, there were 61 exceptions from this test. This represents an exception rate of 37%.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

SECTION III: FEDERAL AWARD FINDINGS (Continued)

Finding 06-5 (Continued): Year Ended September 30, 2006

Recommendation:

It is recommended that the Highland Park Housing Commission correct the documentation in the tenant files where possible. It is recommended that the process of documenting the selection of tenants from the waiting list be improved. A copy of the waiting list should be placed in the new tenant's file. If the new tenant is not at the top of the waiting list, the Highland Park Housing Commission should document why the applicants that were listed higher on the waiting list were not chosen.

It should be noted that the staff started the process of correcting the tenant files after they were informed of the errors. A fax was sent to us on June 25, 2007 detailing these corrections.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

SECTION III: FEDERAL AWARD FINDINGS (Continued)

Finding 06-6: Year Ended September 30, 2006

Condition and Criteria:

The criminal background check was in 8 of the 9 tenant files tested.

Effect:

The tenant's right to privacy was violated.

Cause:

The staff in charge of this program did not make sure that the criminal background checks were not in the tenant files or they were not aware that they should not be in the tenant files.

Population and Items Tested:

9 files out of a population of approximately 155 tenant files were tested. Out of the 9 tenant files tested, 8 tenant files contained the criminal background check. This represents an exception rate of 89%.

Recommendation:

It is recommended that the staff remove the criminal background checks from all of the tenant files. The files should document that a criminal background check was done, on what date, and if the applicant was eligible or ineligible for the housing program. A new form or additional entries on current forms should be used to document the files.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

SECTION III: FEDERAL AWARD FINDINGS (Continued)

Finding 06-7: Year Ended September 30, 2006

Condition and Criteria:

During testing of the tenant files, it was discovered that there were not correct and proper verifications of income, expenses, and assets.

Effect:

Tenants may have been charged the wrong rents.

Cause:

The staff in charge of this program sometimes did not obtain a properly completed tenant annual questionnaire, sometimes did not obtain verifications where required, and some of the verifications obtained did not match what was used on the HUD forms.

Population and Items Tested:

Of the 9 files tested out of a population of 155, only 1 had all of the correct and proper verifications. This represents an exception rate of 89%.

Recommendation:

It is recommended that the Highland Park Housing Commission obtain properly completed annual questionnaires from the tenants before their annual review. The staff should then properly follow up on the tenant's answers. The staff should obtain correct and proper income, expense, and asset verifications for all tenants. Wherever possible, these should be independent, third party written verifications. Two attempts must be made to obtain this type of documentation, and the tenant file documented, before alternative methods may be used.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

SECTION III: FEDERAL AWARD FINDINGS (Continued)

Finding 06-8: Year Ended September 30, 2006

Condition and Criteria:

There is no evidence that applicants are being checked for previous evictions from public housing.

Effect:

Tenants that may not be eligible for the program could be in the program.

Cause:

The staff in charge of this program did not check applicants for previous evictions from public housing.

Population and Items Tested:

9 files out of a population of approximately 155 tenant files were tested. Out of the 9 files tested, 9 tenant files did not have evidence that the check for a previous eviction from public housing was performed. This represents an exception rate of 100%.

Recommendation:

It is recommended that the Highland Park Housing Commission put in place a process to check applicants for previous evictions from public housing. At a minimum, applicants should be required to answer in writing if they have ever lived in public housing. If they answer yes, the Highland Park Housing Commission should find out what public housing locations they have lived at previously and check with those housing commissions to see if they have been evicted. This should be documented in the tenant file as well.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

SECTION III: FEDERAL AWARD FINDINGS (Continued)

Finding 06-9: Year Ended September 30, 2006

Condition and Criteria:

The Highland Park Housing Commission did not have correct and complete documentation showing the tenant's selection of income based or flat rent.

Effect:

The tenant may not have had the opportunity to select the rent that they felt was best for them.

Cause:

The staff in charge of this program did not obtain all of the complete and correct required documentation for the files.

Population and Items Tested:

9 tenant files out of a population of 155 were tested. Of the 9 tenant files tested, 5 did not have the proper income based flat rent choice documentation. This represents an exception rate of 55.56%.

Recommendation:

It is recommended that the Highland Park Housing Commission make sure that it obtains complete and correct documentation of the tenants choice of income based or flat rent. The Tenant should make their selection and then sign and date the form.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

SECTION III: FEDERAL AWARD FINDINGS (Continued)

Finding 06-10: Year Ended September 30, 2006

Condition and Criteria:

Additional required documentation was missing in the tenant files.

Effect:

Tenants may not be informed of their rights, the Housing Commission could be at risk where there is not an enforceable lease, tenants may be in the program when they are ineligible, and the family composition may be inaccurate which may result in inaccurate rents.

Cause:

The staff in charge of this program did not obtain all of the correct and complete documentation.

Population and Items Tested:

9 tenant files out of a population of 155 were tested. Of the 9 tenant files tested, 6 did not have the additional correct and complete required documentation. This represents an exception rate of 67%.

Recommendation:

A properly completed, signed, and dated Privacy Act Notice should be obtained annually for each tenant. Each tenant should have a current lease. A photo ID, birth certificate, a verification of social security number, and a correct and complete 214 declaration form should be obtained for each tenant as well. The tenant should attest in writing to the family composition annually and this documentation placed in the file.

It should be noted that the staff started the process of correcting the tenant files after they were informed of the errors. A Housing Commission staff person sent a fax on June 25, 2007 detailing these corrections.

In addition, several of the applications reviewed had altered dates on them. 6 applications out of 16 tested had altered dates. It is recommended that in the future no alternations be made to dates on applications. If there is an error on the date a new original application should be completed in the future.

It is recommended that the files and any other sensitive information be removed from the first floor storage room next to the community room, since too many people have access to this room. This information should be moved to a new secure location.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

SECTION III: FEDERAL AWARD FINDINGS (Continued)

Finding 06-11: Year Ended September 30, 2006

Condition and Criteria:

There was not any documentation available to indicate that an up to date utility allowance schedule was used.

Effect:

If there has been a rate change of 10 percent or more for a utility category or fuel type since the last time the utility allowance schedule was revised, then the utility allowance the Housing Commission has been using would be incorrect.

Cause:

The staff in charge of this program failed to update the utility allowance schedule as required.

Recommendation:

It is recommended that the Housing Commission obtain a utility study and update the utility allowance schedule. It is understood based on a phone call with the Acting Executive Director that this will be done in the next few months.

HIGHLAND PARK HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2006
=====

<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			
	(1)		
3610	Interest income	\$ 94,000.00	
2801	Prior period adjust.		\$ 94,000.00
	(2)		
3690	Other income	12,600.00	
3720	Other government grant		12,600.00
	(3)		
2801	Prior period adjust.	31,121.41	
4115	Adm. benefits		2,319.01
4415	Maint. benefits		28,802.40
	(4)		
2810	Retained earnings	53,715.30	
2801	Prior period adjust.		53,715.30
	(5)		
2802	Invested in capital assets	258,267.15	
2810	Retained earnings		258,267.15

HIGHLAND PARK HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

SEPTEMBER 30, 2006

HIGHLAND PARK HOUSING COMMISSION
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SEPTEMBER 30, 2006

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Highland Park Housing Commission

I have audited the financial statements of the Highland Park Housing Commission ("Housing Commission") as of and for the year ended September 30, 2006, and have issued my report, thereon, dated June 21, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were several audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process.

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There were no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - The Housing Commission began the process of getting audit proposals in May 2007. I received approval to start the audit in June 2007 and was able to begin my fieldwork on June 11, 2007 and completed my fieldwork on June 21, 2007. The final trial balance was available for me on June 24, 2007. I was able to issue an opinion on the financial statements, because of the fieldwork I had begun before receiving the trial balance. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Barry E. Lander, M.P.C.
June 21, 2007

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Highland Park Housing Commission

I have audited the financial statements of the Highland Park Housing Commission ("Housing Commission") as of and for the year ended September 30, 2006, and have issued my report, thereon, dated June 21, 2007. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

June 21, 2007

HIGHLAND PARK HOUSING COMMISSION

MANAGEMENT ADVISORY COMMENTS

September 30, 2006

=====

Personnel Policy

The Housing Commission's personnel policy is the same one the City of Highland Park uses.

I recommend that the Housing Commission update and adopt a personnel policy that applies to the Housing Commission's needs.

Workorders

The workorders are not being closed timely and it appears that the dates used are not correct.

I recommend that the Housing Commission assign an employee to monitor the closing of workorders being timely. The workorders should be closed the same day as completed, not several months later.

Unit Turnarounds

There are currently 40 units that are vacant for various reasons.

The Housing Commission needs to improve it's unit turnaround time to comply with HUD requirements and improve it's cash flow.

Conflicts of Interest and Nepotism

The Housing Commission has several employees and contractors performing services for the Housing Commission that are related. Also, the resident commissioner is also a paid security guard of the Housing Commission.

I recommend that the Housing Commission Board review (and update) their policies on conflicts of interest and nepotism.

Maintenance Supervisor

The maintenance supervisor retired in June 2006.

I recommend that a maintenance supervisor be appointed as soon as possible.

HIGHLAND PARK HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
September 30, 2006
=====

Staff Evaluations

The last time there were employee evaluations was in 2004.

I recommend that employee evaluations be done at least annually.

Investment Policy

The Housing Commission staff was not able to show me a copy of the investment policy.

I recommend an investment policy be adopted by the Board.

Procurement Policy

The Housing Commission does not follow its procurement policy in all instances.

I recommend that the procurement policy be followed.

HIGHLAND PARK HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2006
=====

<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
	(1)		
3610	Interest income	\$ 94,000.00	
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